

Message Text

CONFIDENTIAL

PAGE 01 HONG K 09990 032322Z

62

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 DODE-00 PA-03 USIA-15 PRS-01 ABF-01

DRC-01 /172 W

----- 006613

R 030849Z OCT 73

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 8378

USTREASURY DEPT WASHDC

INFMCDQDTC/AMEMBASSY LONDON 2104

C O N F I D E N T I A L HONG KONG 9990

E.O. 11652: GDS

TAGS: EFIN

SUBJ: EXTENSION OF STERLING AGREEMENT

REF: (A) HONG KONG 10001

(B) LONDON 10425

1. HADDON-CAVE'S CONVERSATIONS WITH UK OFFICIALS AT COMMONWEALTH FINANCE MINISTERS MEETING ARE CHARACTERIZED HERE AS LITTLE MORE THAN CORRIDOR DISCUSSION. HKG IS RESIGNED TO MAINTAINING 89 PERCENT ITS RESERVES IN STERLING BECAUSE AS A COLONY, IT HAS NO CHOICE. THE BANKS ARE NO LONGER COVERED BY GUARANTY SINCE SEPT 24 AND ARE ALREADY DIVERSIFYING.

2. THERE IS LITTLE GOVERNMENT NEED DO AT THIS POINT. ONE REMAINING PROBLEM IS THAT 11 PERCENT PERMITTED NON-STERLING ASSETS (ALL OWNED BY GOVERNMENT) CALCULATED ON RESERVE BASE THAT INCLUDED COMMERCIAL BANK STERLING RESERVES BECOMES PERHAPS DOUBLE THAT PERCENTAGE WHEN COMPUTED ON OFFICIALLY OWNED RESERVES ALONE. TO QUALIFY NON-STERLING ASSETS EITHER WILL HAVE TO BE SOLD OFF OR HONG KONG
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 HONG K 09990 032322Z

DOLLAR BALANCES CONVERTED INTO STERLING OR BOTH.

3. HKG STOPPED BANK ACCRUALS OF STERLING ELIGIBLE FOR GUARANTY ON JULY 6, 1972. STERLING FLOAT AGAINST US DOLLAR FEW WEEKS BEFORE COMBINED WITH THE HONG KONG GOVERNMENT'S DECISION LINK ITS CURRENCY WITH US DOLLAR CREATED NEW SITUATION. GOVERNMENT'S 1968 GUARANTY TO BANKS WAS IN FORM FIXED EXCHANGE RATE BETWEEN STERLING AND HONG KONG DOLLAR. WITH FLUCTUATION OF HONG KONG DOLLAR STERLING RATE EXCHANGE FUND WAS LIABLE FOR ANY LOSS THAT BANKS MIGHT INCUR WITHOUT AN ASSISTANCE FROM UK TREASURY UNLESS STERLING/DOLLAR RATE FELL BELOW US\$2.40/1.

4. BANK'S STERLING ASSETS DECLINED IN FIRST HALF OF 1973 REFLECTING BALANCE OF PAYMENTS DEFICIT DURING THAT PERIOD. IN JULY WHEN IT BECAME CLEAR THAT HKG WAS GETTING NOWHERE WITH UK ON AN EXTENSION, THEY STARTED SELL FORWARD. AT THIS POINT IT IS NOT KNOWN HOW MUCH OF THE ROUGHLY 350 MILLION POUNDS HELD AT END OF JUNE HAVE BEEN CONVERTED OR WILL BE IN NEXT FEW MONTHS. IN GENERAL, SIX MONTH EXTENSION NOT REGARDED AS SUFFICIENT TO RUN RISK OF BEING HEAVILY IN STERLING AT END OF PERIOD WITHOUT ANY PROSPECT OF EXTENSION.

5. MOREOVER, GOVERNMENT, AFTER PAYING A VERY SUBSTANTIAL SUM TO BANKS FROM EXCHANGE FUND UNDER GUARANTY THAT EXPIRED SEPT 24 IS NOT LIKELY TO RISK POSSIBILITY AGAIN THAT STERLING/HONG KONG DOLLAR RATE MIGHT DIVERGE FROM STERLING/DOLLAR RATE. THIS COULD HAPPEN IF BOTH DOLLAR AND STERLING DECLINED TO SUCH EXTENT VIS-A-VIS COMMON MARKET CURRENCIES AND YEN THAT HKG DECIDED TO APPRECIATE VIS-A-VIS DOLLAR AS ANTI-INFLATIONARY MEASURE. APPRECIATION HAS BEEN COURSE ADOPTED IN FACE OF TWO DOLLAR DEVALUATIONS AND DEPRECIATION OF STERLING.
OSBORN

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MONETARY AGREEMENTS, CURRENCY STABILITY, STERLING (CURRENCY), FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 03 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973HONGK09990
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS OSBORN
Errors: N/A
Film Number: n/a
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731054/aaaabntq.tel
Line Count: 91
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: (A) HONG KONG 10001
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 27 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27-Aug-2001 by boyleja>; APPROVED <20 FEB 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EXTENSION OF STERLING AGREEMENT
TAGS: EFIN, UK, HK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005